



## REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF CAPRICORN DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages...to...for the year ended 30 June 2006 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with Sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512* of 2006, issued in *Government Gazette* no.29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

### 3. BASIS OF ACCOUNTING

The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in paragraph 1 of the accounting policies to the financial statements.

### 4. QUALIFICATION

The qualifications listed below, resulted from the following severe control weaknesses:

- inadequate monitoring and reviewing;
- failure to adhere to the financial accounting and internal control systems including poor record keeping.

#### **4.1 Income recognition**

Due to the nature of levy revenue which is based on self assessment of levy payers, the municipality does not institute accounting controls over levy collections prior to the initial entry of the collections in the accounting records. Accordingly, it was impractical to extend our examination beyond the amounts actually recorded.

#### **4.2 Revenue**

There is a lack of a suitable audit trail to trace revenue received to the accounting records. As a result, I am unable to verify the categorisation of levy related revenue.

### **5. QUALIFICATION OF AUDIT OPINION**

In my opinion, except for the matters referred to above, the financial statements fairly present, in all material respects, the financial position of the entity at 30 June 2006 and the results of its operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in paragraph 1 of the accounting policies to the financial statements, and in the manner required by the Local Government: Municipal Finance Management Act , 2003 (Act No. 56 of 2003).

### **6. EMPHASIS OF MATTER**

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

#### **6.1 Opening balances**

The previous year's audit report which ended 30 June 2005 revealed cases of unadjusted accounts, unaccounted expenditure transactions, as well as the non-submission of documentation and under – and over statements. Due to these discrepancies in the opening balances as at 1 July 2005, the results for the year ended are affected by these misstatements. The opening balances published reflect adjusted balances from the 2005 information re-submitted for audit. A reconciliation of the balances previously reported to the opening balances currently published is disclosed as Appendix G and H in the financial statements.

#### **6.2 Operating lease expenditure**

The municipality did not account for lease expenditure in accordance with its stated accounting policy on leases, which requires that operating leases be recognised on a straight line basis over the term of the lease. Had this been done, the lease expenditure accounted for in terms of the accounting policy would have resulted in an adjustment of R288 189 to the surplus for the year ended 30 June 2006.

### **6.3 Disaster recovery**

The municipality does not have a formally documented and tested disaster recovery plan (DRP) in place for the recovery of the various application systems in the event of a disaster.

### **6.4 Fraud prevention strategy**

The municipality does not have an approved fraud prevention strategy in place for the prevention and detection of fraud in the work environment.

### **6.5 Audit committee**

In terms of section 166 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), an audit committee should -

- (a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality; and
- (b) meet as often as is required to perform its functions, but at least four times a year.
- (c) no councillor should be a member of an audit committee.

The municipality did not comply with this regulation as councillors were elected as members of the audit committee. Management informs that the previous committee was established in terms of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) before the enactment of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### **6.6 Performance Contracts**

The performance contract for the municipal manager was not provided and consequently I could not confirm that appropriate provisions of section 60 to 70 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### **6.7 Financial Statements**

The financial statements were submitted on 21st September 2006; in contravention of section 126 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) which requires that the financial statements be submitted within two months after the end of the financial year. Furthermore, material adjustments were made to these financial statements during the course of the audit.

## 7. APPRECIATION

The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

AN Dzuguda  
for Auditor-General

A handwritten signature in black ink, appearing to read 'AN Dzuguda', written over the printed name.

POLOKWANE  
26 April 2007